Migrating your Tax Processes to the Cloud

How Digital Transformation Simplifies the Complex Sales Tax Function

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Digital transformation in a dynamic world

Rapidly evolving technologies and the rise of ecommerce were already changing the face and form of commerce. Now, world events, particularly the coronavirus pandemic of 2020, are causing major upheaval in the economy, forcing companies to re-evaluate their business processes. Across industries and sectors—from retail to industrial, B2B and B2C—efforts toward leveraging automation and data exchange are accelerating with digital transformation initiatives that integrate digital technology into all areas of a business.

For the mid-size and large organization, the mandate to automate is crucial for doing business in order to keep pace with competitors, enterprise and technological innovation and global growth.

The complex world of indirect tax

From the tax perspective for sales and use tax, doing business in the U.S. is already complex, involving more than 11,000 taxing jurisdictions and constantly changing rules and rates—6,230 new and updated sales-and-use tax rates over the past 10 years. On top of that, special-use taxes and tax holidays further complicate the process.

The unprecedented 2018 Supreme Court ruling on *South Dakota v. Wayfair* added to the complexity of the indirect tax function by changing U.S. tax regulations. *Wayfair* requires the collection of sales tax from customers in each state goods are sold in, regardless of the seller's physical presence in those states, accelerating the pressure on the enterprise to further automate sales and use tax processes.

Ecommerce tax laws continue to evolve, such as Pennsylvania's requirement, effective July 1, 2020, that will require any company selling more than $100,000 worth of product (or 200 transactions) into the commonwealth to collect and pay sales tax and file returns.

The risk of non-compliance to tax rules and regulations includes increased likelihood of tax audits and financial penalties. "The risk of not providing adequate automation and IT support for sales and use tax processes can easily multiply with organic sales growth and mergers and acquisitions, among other business initiatives," says Mark Sieczkowski, Senior Product Manager, Cloud, at Vertex, Inc., a leading tax technology and services provider that empowers global commerce.

Furthering tax automation

Today, there are still large enterprises that rely on a combination of manual and automated processes to research and update tax rules and rates to ensure the correct calculation and remittance.

"Maintaining the correct tax rates and rules for the enterprise is a significant burden without further automation," Sieczkowski says. "Most ERP and other enterprise systems have the ability to add tax rates and rules to their data tables or their structure, but they're not automated. While most ERP systems have the ability to manually add tax rates and rules to data tables in their structure, maintaining the rates and rules in these cases is a manual and often burdensome process."

> Manual processes increase the potential for errors, omissions, data latency and other issues.

More fully automated solutions are available to continually update financial systems with the latest tax rules and rates while automating the tax calculation and returns process —without the need to strain the resources of IT departments. Tax automation solutions can provide indirect tax calculation, returns and exemption certificate management to improve efficiencies, enabling tax departments to work on more strategic endeavors.

Determining a digital strategy for tax

IT managers and leaders are busy with core activities, and in many cases, the push to further automate tax hasn't been a priority. But advances in technologies, such as analytics and cloud computing, are paving the way to make automating the indirect tax process easier. The question becomes not "Should we automate tax?" but "How can we further automate tax?"

For IT managers and leaders, the push to further automate tax means assessing multiple variables by solution partners and closely working with the tax department.

Across the IT and tax departments, determining the answers to these questions will help you form a comprehensive strategy:

1. Are we seeking to implement a tax technology for the first time?
2. Do we need to upgrade any legacy platforms?
3. Are we changing deployment models or starting completely fresh?
4. What deployment model (or models) is best for our organization?
5. Post-implementation, how will business processes and workflows change?
6. What departments and job functions does the new solution affect?

"Some organizations may already be starting with multiple formats or need these options as they move along their journey with tax automation and as the predominant model transitions to the cloud. A customer-centric vendor may offer more than one deployment option," says Robin Allen, Senior Director of Program Management, Commercial Software at Vertex, Inc. These include on-premise, such as solutions installed in your own data center; on-demand for a hosted, hybrid private cloud solution; or a public cloud solution.

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Robin Allen, Senior Director of Program Management, Commercial Software at Vertex, Inc

Why migrate to the cloud?

Many organizations are considering moving to all cloud-based tax solutions for added efficiencies. Among the many benefits of cloud, SaaS deployment shifts from a capital expenditure (CapEx) model to an operating expenditure (OpEx) model. Cloud allows enterprises to automate indirect tax without burdening IT with provisioning hardware, updates, and extensive security monitoring.

IT departments especially appreciate these benefits:

+ Cost-efficiencies like reduced IT costs and time in IT infrastructure development.
+ Easy implementations with faster go-live than on-premise solutions.
+ Less maintenance means IT teams are free to work on core issues and strategic thinking.

Both IT and tax departments can assess moving to a cloud-based tax automation solution with these key considerations:

+ You need a scalable solution.
+ Your company may be burdened with multiple vendors for financial systems, tax systems and enterprise systems such as ERP.
+ Application integrations present their own challenges: information must flow seamlessly across systems, such as ERP, POS and e-commerce systems.
+ Cybersecurity for cloud applications must be proofed against information and data breaches with file-level encryption and internal controls.

With more organizations migrating workloads to the cloud, it is also vital to discuss deployment models at the procurement stage. Whether you are changing deployment models or starting fresh, migrating to the cloud allows a company to meet the tax department's requirements to stay current with the challenging jurisdictions and regulations environment while supporting disaster recovery.

"The adoption of technology is vastly different now than it was even five years ago. It's literally everywhere. It's important not to be afraid of it and to embrace it," Allen says, noting that technology is deeply tied to how a solutions vendor can support and service its customers just as it defines the customer experience today.

Cloud Application Services (SaaS), the largest market segment of public cloud services, is expected to grow from $116 billion in 2020 to $133 billion in 2021.

Source: Gartner, Inc.

How to migrate to the cloud

Whether you are migrating your tax solution to the cloud or starting fresh with a cloud-based model, plan for the following:

+ An evaluation of your current ERP systems, e-commerce systems and how they integrate with tax technology
+ Involve key stakeholders, including the IT and tax departments and as needed, the CFO and CTO
+ Configuration of products and services
+ Testing and go-live
+ Ongoing updates

When considering a cloud migration and integrations with an ERP system or other systems such as e-commerce, procurement, billing or financial systems, a partnership approach is recommended.

"Ideally, IT leaders will partner with their functional business counterparts in tax, and make sure they're supporting them in selecting the right automated tax solution for the business. Tax departments are ultimately responsible for the configuration of tax and making sure it's calculated and filed while IT supports the systems for them," says Jennifer Kurtz, CTO at Vertex, Inc.

The big picture

Digital transformation initiatives are fundamentally changing how businesses operate to bring operational efficiencies, support innovation and deliver value. The 2018 *Wayfair* ruling and recent legislation has dramatically changed the sales and use tax landscape, adding to the burdens already felt by tax, finance and IT departments.

Tax automation solutions have evolved with technology and more organizations are migrating workloads to the cloud. Whether or not your enterprise is moving to the cloud, when selecting a tax automation solutions vendor, consider a customer-centric organization, which offers multiple deployment options for flexibility.

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